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FINLAYSON ENTERPRISES LTD · ANNUAL REPORT 1979

*g. finlayson*

*Paul*











REGINALD WILLIAM FINLAYSON

On October 15, 1979, Finlayson Enterprises Ltd. suffered a grievous loss in the death of its Chairman, Mr. R. W. Finlayson.

As President Mr. Finlayson made an outstanding contribution throughout many years of devoted and conscientious service and was responsible for the organization of the company in its present form. He relinquished the position of President and Chief Executive Officer to his son, Mr. Ian E. Finlayson, shortly before his death.

In addition to his business activities Mr. Finlayson for many years exhibited a keen interest in cultural and artistic affairs, particularly through his association with the Toronto Symphony Orchestra, The Art Gallery of Ontario and the Archeological Society of Toronto.

Held in high esteem by his business associates, many friends and acquaintances, his wise counsel will be sorely missed, particularly by his colleagues on the Board of Directors of Finlayson Enterprises Ltd.





# Finlayson Enterprises Ltd.

## **DIRECTORS**

G. A. BODDY—Fergus, Ontario

F. B. BROOKS-HILL—Oakville, Ontario

I. E. FINLAYSON—Toronto, Ontario

R. H. HOPPE—Montreal, Quebec

J. C. LONGWORTH—Toronto, Ontario

D. A. McINTOSH, Q.C.—Toronto, Ontario

R. G. WILSON—Burlington, Ontario

## **OFFICERS**

D. A. McINTOSH, Q.C. *Chairman of the Board*

I. E. FINLAYSON, *President*

J. C. LONGWORTH, *Vice-President and Treasurer*

R. G. WILSON, *Vice-President*

H. SUTHERLAND, Q.C., *Secretary*

## **HEAD OFFICE**

833 Oxford Street, Toronto, Ontario, Canada M8Z 5X4

## **REGISTRAR AND TRANSFER AGENT**

CANADA PERMANENT TRUST COMPANY

Toronto, Ontario

Winnipeg, Manitoba

## **BANKERS**

THE BANK OF NOVA SCOTIA

Toronto, Ontario





# Finlayson Enterprises Ltd.

To the Shareholders of  
FINLAYSON ENTERPRISES LTD.

Company sales reached a record level of \$10,984,762 for the year 1979. This sales level represents a 14.6% increase as compared to 1978. All three operating units produced sales increases, with the Griffiths-Kerr linen and bedding unit finishing the year with the best results.

Total net profit before extraordinary items rose from \$57,308 in 1978 to \$104,551 in 1979. While this profit is viewed as being far from satisfactory, it does incorporate a significant writeoff of inventory and associated promotional costs on a discontinued product line.

The consumer demand for the products of our Company reached a high point during the last quarter of the calendar year 1979. This positive demand continues during the first quarter of 1980 despite rather unsettled economic indicators. This uncertain retail environment is being approached by our Company in a cautious manner. Consumer purchase decisions may start to be influenced by the unprecedented increase in the cost of borrowed money.

Our Company enters 1980 budgeting an increase in sales of 17%. If this is attained the forecast for net profit after all charges in 1980 indicates a solid increase over the 1979 result. Each operating unit is pursuing growth opportunities in a manner which should yield a more positive rate of return on shareholders' equity.

Higher sales volume combined with certain cost efficiencies over the first six months of 1980 should produce a more favourable result in our Company's half year Report. However, so much is dependent upon the impact of higher borrowing costs and its influence on consumer demand that 1980 will certainly be a most challenging year for our Company.

I. E. FINLAYSON  
*President*

March 21st, 1980





# Finlayson Enterprises Ltd.

AND SUBSIDIARY COMPANIES

## CONSOLIDATED BALANCE SHEET

### ASSETS

	1979	1978
CURRENT		
Cash .....	\$ —	\$ 600
Accounts receivable .....	2,588,054	2,268,090
Inventories, note 1 .....	2,418,287	1,897,889
Income taxes recoverable .....	—	36,141
Prepaid expenses .....	207,383	255,027
TOTAL CURRENT ASSETS .....	5,213,724	4,457,747
FIXED, note 1		
Equipment, automotive equipment and leasehold improvements .....	930,553	934,083
Accumulated depreciation .....	611,072	581,323
TOTAL FIXED ASSETS .....	319,481	352,760
OTHER		
Cash value of life insurance policies .....	—	66,677
Approved on behalf of the Board:		
I. E. FINLAYSON, <i>Director</i>		
J. C. LONGWORTH, <i>Director</i>		
	<u>\$5,533,205</u>	<u>\$4,877,184</u>

### AUDITORS' REPORT

To the Shareholders

FINLAYSON ENTERPRISES LTD.

We have examined the consolidated balance sheet of Finlayson Enterprises Ltd. as at 31 December 1979 and the consolidated statements of retained earnings, income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at 31 December 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TORONTO, ONTARIO, 13 March 1980

DUNWOODY & COMPANY  
*Chartered Accountants*



at 31 December 1979

## LIABILITIES

	1979	1978
CURRENT		
Bank indebtedness .....	\$1,925,236	\$1,650,615
Note payable, note 2 .....	134,323	115,000
Accounts payable .....	1,407,664	1,179,892
Withholding taxes .....	48,721	55,934
Income taxes .....	12,906	—
TOTAL CURRENT LIABILITIES .....	3,528,850	3,001,441
DEFERRED INCOME TAXES, note 1 .....	21,612	21,612
	<u>3,550,462</u>	<u>3,023,053</u>

## SHAREHOLDERS' EQUITY

### SHARE CAPITAL

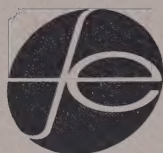
Authorized		
2,150,941 6% cumulative preferred shares of par value		
\$1 each, redeemable at the amount paid up thereon		
116,133 Common shares of no par value, aggregate		
consideration not to exceed \$440,510		
Issued		
622,536 Preferred shares .....	622,536	622,536
77,817 Common shares .....	281,671	281,671
	904,207	904,207
RETAINED EARNINGS .....	1,078,536	949,924
TOTAL SHAREHOLDERS' EQUITY .....	1,982,743	1,854,131
	<u>\$5,533,205</u>	<u>\$4,877,184</u>
COMMITMENTS, note 6		
CONTINGENT LIABILITY, note 7		
REMUNERATION OF DIRECTORS AND OFFICERS, note 8		

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended 31 December 1979

	1979	1978
BALANCE, BEGINNING OF YEAR .....	\$ 949,924	\$ 937,750
Net income for the year .....	173,746	57,308
	<u>1,123,670</u>	<u>995,058</u>
Cash dividends paid during the year		
Preferred shares .....	37,352	37,352
Common shares .....	7,782	7,782
	45,134	45,134
BALANCE, END OF YEAR .....	<u>\$1,078,536</u>	<u>\$ 949,924</u>





# Finlayson Enterprises Ltd.

AND SUBSIDIARY COMPANIES

## CONSOLIDATED STATEMENT OF INCOME

For the Year Ended 31 December 1979

	1979	1978
SALES, note 3 . . . . .	<u>\$10,984,762</u>	<u>\$9,585,287</u>
Income from operations for the year before undernoted items . . . . .	205,869	141,777
Provision for depreciation and amortization of fixed assets . . . . .	68,043	76,072
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS . . . . .	<u>137,826</u>	<u>65,705</u>
Income taxes, note 4		
Current . . . . .	33,275	11,397
Deferred . . . . .	—	(3,000)
	<u>33,275</u>	<u>8,397</u>
INCOME BEFORE EXTRAORDINARY ITEMS . . . . .	<u>104,551</u>	<u>57,308</u>
Extraordinary items		
Income taxes recovered on loss carry forward . . . . .	3,500	—
Excess of proceeds over cash value of life insurance policies . . . . .	65,695	—
	<u>69,195</u>	<u>—</u>
NET INCOME FOR THE YEAR, note 5 . . . . .	<u>\$ 173,746</u>	<u>\$ 57,308</u>

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended 31 December 1979

### SOURCE OF FUNDS

	1979	1978
Operations		
Income before extraordinary items . . . . .	\$ 104,551	\$ 57,308
Items not requiring an expenditure of funds		
Depreciation and amortization . . . . .	68,043	76,072
Deferred income taxes . . . . .	—	(3,000)
Gain on disposal of fixed assets . . . . .	(696)	—
FUNDS OBTAINED FROM OPERATIONS . . . . .	<u>171,898</u>	<u>130,380</u>
Proceeds on life insurance policies . . . . .	135,000	—
Proceeds on disposal of fixed assets . . . . .	16,715	7,992
Income tax reduction on application of prior years' losses . . . . .	3,500	—
TOTAL FUNDS OBTAINED . . . . .	<u>327,113</u>	<u>138,372</u>

### APPLICATION OF FUNDS

Acquisition of fixed assets . . . . .	50,783	59,220
Increase in cash value of life insurance policies . . . . .	2,628	3,350
Dividends paid during year		
Preferred shares . . . . .	37,352	37,352
Common shares . . . . .	7,782	7,782
TOTAL FUNDS APPLIED . . . . .	<u>98,545</u>	<u>107,704</u>
INCREASE IN WORKING CAPITAL . . . . .	<u>228,568</u>	<u>30,668</u>
Working capital, beginning of year . . . . .	1,456,306	1,425,638
WORKING CAPITAL, END OF YEAR . . . . .	<u>\$ 1,684,874</u>	<u>\$1,456,306</u>
Represented by		
Current assets . . . . .	\$ 5,213,724	\$4,457,747
Current liabilities . . . . .	3,528,850	3,001,441
	<u>\$ 1,684,874</u>	<u>\$1,456,306</u>





# Finlayson Enterprises Ltd.

AND SUBSIDIARY COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 1979

### 1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the Company:

#### (a) Principles of Consolidation

The consolidated financial statements include the accounts of Beauty Creations Limited and inactive subsidiary companies all of which are wholly owned.

#### (b) Inventories

Finished goods are stated at the lower of cost and net realizable value. Other inventories are stated at the lower of cost and replacement cost which is not in excess of net realizable value. Cost is generally determined on a first-in, first-out basis.

#### (c) Fixed Assets

Fixed assets are recorded at cost and depreciation is provided at the following annual rates:

Equipment —20% diminishing balance basis or 10% straight line basis

Automotive equipment —30% diminishing balance or 20% straight line basis

Leasehold improvements—straight line basis over term of lease.

#### (d) Foreign Exchange

Liabilities in foreign currencies are converted at either the rate of exchange in effect as at the balance sheet date or the rates determined in future foreign exchange contracts held.

#### (e) Deferred Income Taxes

Deferred income taxes result from claiming capital cost allowance for income tax purposes in excess of depreciation recorded in the accounts.

### 2. NOTES PAYABLE

	1979	1978
On demand, payable to shareholders, interest at prime bank rate . . . . .	<u>\$134,323</u>	<u>\$115,000</u>

### 3. CLASSES OF BUSINESS

As required by the Canada Corporations Act the Directors are of the opinion that the proportion of sales from the different classes of business is as follows:

	1979	1978
Textiles . . . . .	\$ 8,039,550	\$6,675,846
Cosmetics and toiletries . . . . .	<u>2,945,212</u>	<u>2,909,441</u>
	<u>\$10,984,762</u>	<u>\$9,585,287</u>

### 4. INCOME TAXES

Inventory allowances for income tax purposes are permanent differences and result in a reduced effective tax rate. This reduction of income taxes amounts to approximately \$28,500 (1978—\$25,900).

### 5. EARNINGS PER COMMON SHARE

	1979	1978
Income before extraordinary items . . . . .	\$0.86	\$0.26
Extraordinary items . . . . .	<u>0.89</u>	<u>—</u>
Net income for the year . . . . .	<u>\$1.75</u>	<u>\$0.26</u>

### 6. COMMITMENTS

The Company and its subsidiaries have leased premises to 30 June 1985 and 30 November 1986 at annual net rentals of \$84,503 and \$80,367 respectively plus taxes and other occupancy costs.

### 7. CONTINGENT LIABILITY

Certain of the group companies have unsuccessfully appealed from a decision of the Tax Review Board upholding income tax re-assessments totalling approximately \$240,000 including interest for the years 1966 to 1968. A further appeal has been instituted and no provision has been made in the accounts for these re-assessments as it is the opinion of counsel that the Company should probably be successful in having the re-assessments set aside.

### 8. REMUNERATION OF DIRECTORS AND OFFICERS

As defined in the Canada Corporations Act the aggregate remuneration of the seven Directors of the Company as Directors amounted to \$5,000 (1978—\$5,000) and the aggregate remuneration of the five Officers of the Company as Officers amounted to \$125,496 (1978—\$129,625). Four of the Officers of the Company are also Directors.

As defined in The Securities Act (Manitoba) the aggregate direct remuneration paid or payable to Directors and Senior Officers, which includes the five highest paid employees, amounted to \$239,290 (1978—\$303,776).











